

FY11/22 Financial Earnings Summary



First Brothers Co., Ltd. (3454)

January 13, 2023

Topics for FY11/22 (1)

Portfolio of properties for lease / Overview

The First Brothers Group is expanding its portfolio by acquiring properties for lease that are projected to return a stable income over the medium to long term.

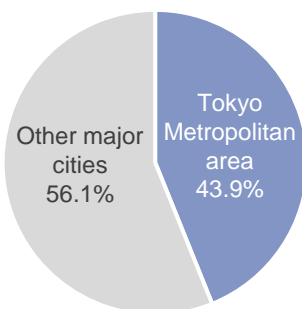
The following table contains the balance, book value, market value, unrealized gain and NOI yield of our portfolio of properties for lease.

(Unit: million yen)	FY11/20 (end of fiscal year)	FY11/21 (end of fiscal year)	FY11/22 (end of fiscal year)	Change from end of FY11/21	Change from end of FY11/21
Balance* ¹ (number of properties)	55,618 (55 properties)	61,421 (95 properties)	64,599 (92 properties)	+3,178	+5.2%
Increase* ¹	20,323	18,174	8,567	-	-
Decrease* ¹	8,082	12,372	5,389	-	-
Book value* ²	56,179	61,953	65,141	+3,188	+5.2%
Market value* ³	64,456	73,143	79,131	+5,988	+8.2%
Unrealized gain* ³	8,276	11,189	13,989	+2,800	+25.0%
NOI yield* ⁴	6.6%	7.2%	7.3%	-	-

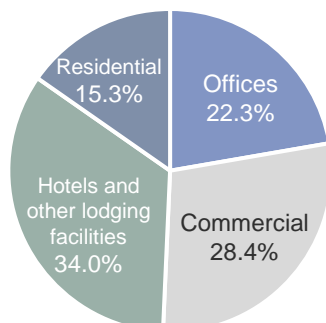
Breakdown of Our Portfolio of Properties for Lease by Location and Use

By location

(in terms of balance)



By use*⁵



Classification of Current and Non-current Assets on Our Balance Sheet

In principle, we record properties for lease as current assets on our balance sheet to ensure that these properties can be promptly sold when we conduct portfolio rotation. However, we record properties with relatively high yields as non-current assets with the intention of generating long-term leasing income.

(million yen)	Current assets	Non-current assets
Balance* ¹ (number of properties)	46,132 (59 properties)	18,467 (33 properties)
Book value* ²	46,950	18,191
Market value* ³	58,363	20,767
Unrealized gain* ³	11,412	2,576
NOI yield* ⁴	7.1%	7.8%

*1 Balance and increase/decrease values are based on acquisition price (before tax). Increase values include increases from M&A and from completion of development projects.

*2 Book value is adjusted by adding transaction costs at the time of acquisition to the acquisition price, and reflecting capital expenditures and depreciation for the investment period.

*3 Market value is the most recent appraised value or assessment value based on the appraised value, and unrealized gain is the difference between this value and book value.

*4 Assumed APR for stable operation (cash-based net income from rents minus administrative expenses, etc., divided by acquisition price).

*5 Mixed-use properties are calculated based on primary usage.

Topics for FY11/22 (2)

Portfolio of properties for lease / Lease income

Our policy is to expand our portfolio of properties for lease in order to increase stable gross profit from leasing^{*1}. However, property sales conducted in connection with portfolio rotation and vacancy losses incidental to value enhancement activities may lead to a temporary decline in gross profit from leasing.

	FY11/19 (12 months)	FY11/20 (12 months)	FY11/21 (12 months)	FY11/22 (12 months)
Gross profit from leasing ^{*1} (million yen)	1,591	2,190	2,439	2,409 ^{*2}

*1 Net income gained from properties for lease (NOI [excluding one-time factors] — depreciation expenses)

*2 Correlation between NOI yield during stable operation (see p. 1) and gross profit from leasing (FY11/22)

•NOI during stable operation in FY11/22 (63,010 million yen [average balance of property holdings at beginning/end of FY11/22] x 7.3% [average NOI yield at beginning/end of FY11/22])	4,599 million yen
•Depreciation expenses in FY11/22	-798 million yen
•Vacancy losses incidental to work to add value to properties and rent for properties acquired during FY11/22, etc.	-1,392 million yen

•Gross profit from leasing in FY11/22	2,409 million yen

Portfolio of properties for lease / Sales income (portfolio rotation)

We manage the properties for lease that we acquire, adding value to them through enhancements, and also sell some on the market as appropriate to achieve property rotation and generate capital gains.

We sold several properties in FY11/22, generating corresponding gains.

A summary of these transactions is shown below.

(million yen)	FY11/19 (12 months)	FY11/20 (12 months)	FY11/21 (12 months)	FY11/22 (12 months)
Sales value ^{*1}	16,541	10,654	20,716	7,230
Gross profit from sale ^{*1}	3,833	2,174	4,541	1,420

*1 Includes sales of real estate for sale in process (including land for development of properties for lease).

■ Fluctuations in sales value and gross profit from sale

For the purpose of portfolio rotation, we sell some of our properties to which we have successfully added significant value, or in cases where we find a buyer presenting favorable conditions. We select these properties by assessing our progress in value enhancement. Because the value of each property is relatively large and each sales transaction can be affected by a range of factors, total sales value on a quarterly or annual basis can fluctuate significantly depending on the number of executed transactions. Gross profit from sale also fluctuates, since the profit margin varies from property to property.

Topics for FY11/22 (3)

Portfolio of properties for lease / Financing status

Our loan balance tends to increase as investment progresses, because we take out loans when acquiring properties. As a rule, we take out long-term loans and use interest rate swaps*¹ to maintain a fixed interest rate for a certain portion of our loan balance.

In FY11/22, the share of loans with fixed interest rates decreased due to the expiry of some interest rate swap agreements.

*¹ While the market price of an interest rate swap contract fluctuates according to interest rate and market trends, we utilize such contracts to fix interest payments over the long term and avoid the risk of interest rates going up; the swap contracts contribute to stabilizing our cash flow.

	FY11/19 (end of fiscal year)	FY11/20 (end of fiscal year)	FY11/21 (end of fiscal year)	FY11/22 (end of fiscal year)
Loan balance (million yen)* ²	37,646	45,976	50,917	52,461
(Of which, non- recourse loans)	613	598	3,420	5,059
Leverage* ³	84.9%	81.8%	82.2%	80.5%
Weighted average residual period	13.9 years	12.1 years	10.2 years	9.7 years
Weighted average interest rate* ⁴	0.84%	0.75%	0.99%	0.98%
% of loans with fixed interest rates	55.1%	44.3%	29.5%	23.2%

*² Loans to fund acquisitions of properties for lease

*³ Loan balance / Book value of properties for lease

*⁴ Before fixing interest rates

Real estate asset management

In FY11/22, competition to buy relatively large-scale properties—our funds' target assets—was fierce compared with the market for small to mid-size properties that we invest in on our own account. As such, the Group refrained from new property acquisitions at the funds for which we manage investment independently. We are continuing our efforts to seek out new properties for acquisition at our funds for which we manage investment independently.

(million yen)	FY11/19 (end of fiscal year)	FY11/20 (end of fiscal year)	FY11/21 (end of fiscal year)	FY11/22 (end of fiscal year)
AUM	13,583	11,820	22,958	22,958
Increase* ¹	4,850	21,570	11,587	0
Decrease* ¹	0	23,333	0	0

*¹ Increase/decrease include conclusion and expiration of asset management agreements.

Facility Operation business

We are expanding investment in operational assets, e.g., lodging facilities. In addition to leasing these lodging facilities, etc., we aim to provide hospitality services on our own in the medium to long term, and to achieve this goal, launched the Facility Operation business in full-scale.

In FY11/22, the business posted an operating loss of 417 million yen due to advisory fees arising from share acquisitions in a hotel management company and sluggish accommodation demand caused by the COVID-19 pandemic.

FY11/22 earnings summary (1)

Consolidated income statement (summary)

In FY11/22, lease income increased due to the expansion of the portfolio of properties for lease. Meanwhile, sales and profit from property sales were down due to a fewer number of property sales compared with FY11/21. As a result, net sales and profits declined year on year.

(million yen)	FY11/20	FY11/21	FY11/22	YoY change	Progress rate in FY11/22
Net sales	15,642	26,685	14,284	-46.5%	100.5%
Gross profit	4,293	6,840	4,089	-40.2%	101.1%
Selling, general and administrative expenses	1,752	1,900	2,273	+19.6%	-
Operating profit	2,541	4,940	1,816	-63.2%	106.2%
Ordinary profit	1,816	4,379	1,356	-69.0%	116.0%
Profit attributable to owners of parent	2,313	2,795	1,180	-57.8%	112.4%

Gross profit breakdown

(million yen)	FY11/20	FY11/21	FY11/22	YoY change
Investment Management business	353	238	222	-7.0%
Investment Banking business	3,916	6,523	3,766	-42.3%
Gross profit from sale	2,174	4,541	1,420	-68.7%
Gross profit from leasing	2,088	2,198	2,312	+5.2%
Other	(347)	(215)	33	N/A
Facility Operation business	-	-	(46)	N/A
Other business	23	78	147	+89.0%
Total gross profit	4,293	6,840	4,089	-40.2%

Selling, general and administrative expenses breakdown

(million yen)	FY11/20	FY11/21	FY11/22	YoY change
Personnel expenses	987	1,101	1,232	+131
Rent	171	190	195	+4
Commission expenses / remuneration	253	228	368*	+140
Taxes and dues	131	188	66	-122
Amortization of goodwill	-	3	108	+104
Other	209	187	302	+114
Total selling, general and administrative expenses	1,752	1,900	2,273	+373

*Includes advisory fees (62 million yen) associated with the acquisition of shares in subsidiaries.

FY11/22 earnings summary (2)

Consolidated balance sheet (summary)

In principle, we record properties for lease as current assets (real estate for sale) to ensure that they can be sold promptly when conducting portfolio rotation. However, we record properties with relatively high yields as non-current assets with the intention of generating long-term leasing income. Depreciation is recorded for both asset categories.

Consolidated assets (million yen)	End FY11/20	End FY11/21	End FY11/22	Change
Total current assets	71,874	62,655	61,666	-988
Cash and deposits	6,207	10,766	7,306	-3,459
Deposits in trust	563	740	921	+181
Real estate for sale	56,205	44,908	46,956	+2,047
Real estate for sale in process	6,449	4,275	3,479	-796
Other	2,449	1,963	3,002	+1,038
Total non-current assets	1,887	19,896	25,977	+6,080
Total assets	73,762	82,551	87,643	+5,091

Consolidated liabilities and net assets (million yen)	End FY11/20	End FY11/21	End FY11/22	Change
Total liabilities	55,431	61,741	65,997	+4,255
Total current liabilities	6,009	8,870	5,585	-3,285
Short-term borrowings	2,000	3,454	1,156	-2,297
Current portion of long-term borrowings	1,741	1,890	2,339	+449
Current portion of long-term non-recourse loans payable	15	0	119	+119
Other	2,253	3,525	1,969	-1,556
Total non-current liabilities	49,422	52,871	60,411	+7,540
Long-term borrowings	43,318	44,384	50,678	+6,293
Long-term non-recourse loans payable	582	3,420	4,940	+1,520
Other	5,521	5,066	4,793	-272
Total net assets	18,330	20,809	21,646	+836
Total shareholders' equity	18,211	20,669	21,469	+800
Other	118	140	176	+36
Total liabilities and net assets	73,762	82,551	87,643	+5,091
Net D/E ratio*1	2.21	1.85	2.14	-

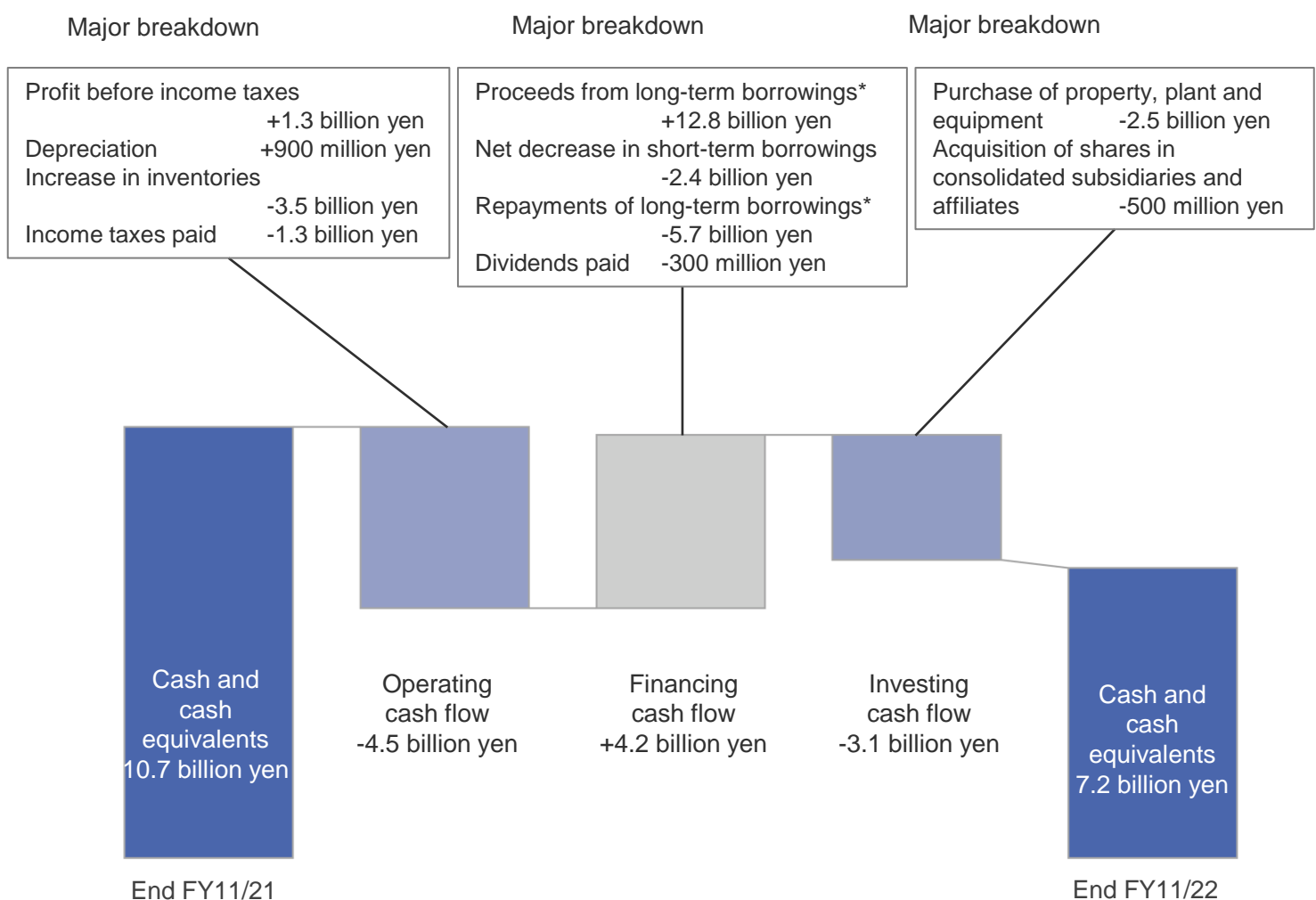
*1 Net D/E ratio = (Interest-bearing debt excluding non-recourse loans – [cash and deposits + deposits in trust]) / Shareholders' equity

FY11/22 earnings summary (3)

Cash flow status

In FY11/22, net cash used in operating activities amounted to 4.5 billion yen, largely due to an increase in inventories (properties for lease) which offset profit before income taxes. Net cash provided by financing activities amounted to 4.2 billion, owing primarily to an increase in long-term borrowings. Net cash used in investing activities amounted to 3.1 billion yen, mainly reflecting the purchase of property, plant and equipment.

The breakdown of changes in each cash flow item is shown below.



*Borrowings include non-recourse loans.

FY11/23 full-year earnings forecast

Under our corporate philosophy that demands us to be “leading professionals,” we will leverage our discerning eye for investment projects and track record in adding value to properties, and acquire investment properties that are expected to generate sufficient returns and add value to existing lease properties in our portfolio. In doing so, we intend to enhance and expand the portfolio of properties for lease. We also aim to generate profit from property sales by selling some properties for lease and realizing unrealized gains achieved by enhancing the value of these properties. Further, in the Facility Operation business fully launched in FY11/22, we will take a flexible approach to operating lodging and other facilities based on our corporate philosophy and provide highly satisfying hospitality services unique to our Group to customers.

For the next fiscal year, FY11/23, we expect a year-on-year increase in property sales conducted in connection with our efforts to refresh the lease property portfolio, and forecast net sales of 19,400 million yen, operating profit of 3,345 million yen, ordinary profit of 2,525 million yen, and profit attributable to owners of parent of 2,000 million yen.

(million yen)	FY11/21 Full-year results	FY11/22 Full-year results	FY11/23 Full-year forecast	YoY change
Net sales	26,685	14,284	19,400	+35.8%
Gross profit	6,840	4,089	5,890	+44.0%
Investment Management business	238	222	80	-63.6%
Investment Banking business	6,523	3,766	5,760	+52.9%
Facility Operation business	-	(46)	44	N/A
Other	78	147	4	-97.0%
Operating profit	4,940	1,816	3,345	+84.2%
Ordinary profit	4,379	1,356	2,525	+86.1%
Profit attributable to owners of parent	2,795	1,180	2,000	+69.4%

About the Group's earnings performance

We plan to increase profits and shareholders' equity through the above business activities, but as of now, sales and profit from property sales associated with lease property portfolio reshuffling make up a large portion of earnings. For this reason, our earnings have the following characteristics.

(1) Gross profit over net sales

From the standpoint of portfolio reshuffling, we realize unrealized gains by selling some properties for lease, and use the proceeds from the sale to acquire new lease properties. In this way, we are continuing to grow our lease property portfolio. During this process, we record as net sales the proceeds from property sales, which usually amount to large sums, but this is merely a byproduct of portfolio reshuffling. For this reason, we place greater importance on gross profit than on net sales.

(2) Short-term earnings fluctuations

Our quarterly and annual earnings performance can fluctuate significantly depending on the status of property sales. This is because large sales and profits tend to be recorded when we sell properties for lease, whereas most of our SGA expenses are fixed expenses.

Also, Group consolidated profit margins at all levels tend to fluctuate, because profit margins at the time of sale vary according to individual properties.

While real estate transactions are influenced by various circumstances, there are no obvious seasonal patterns (such as net sales being skewed toward 1H).

Shareholder returns / Dividend policy

Basic dividend policy

- Dividends are paid once a year (end of fiscal year)
- Stable and continuous dividends regardless of short-term earnings fluctuations
- Dividends to increase in the medium to long term as the company grows
- Target dividend on equity (DOE) of around 2.0%

Formula for calculating dividend per share (DPS)

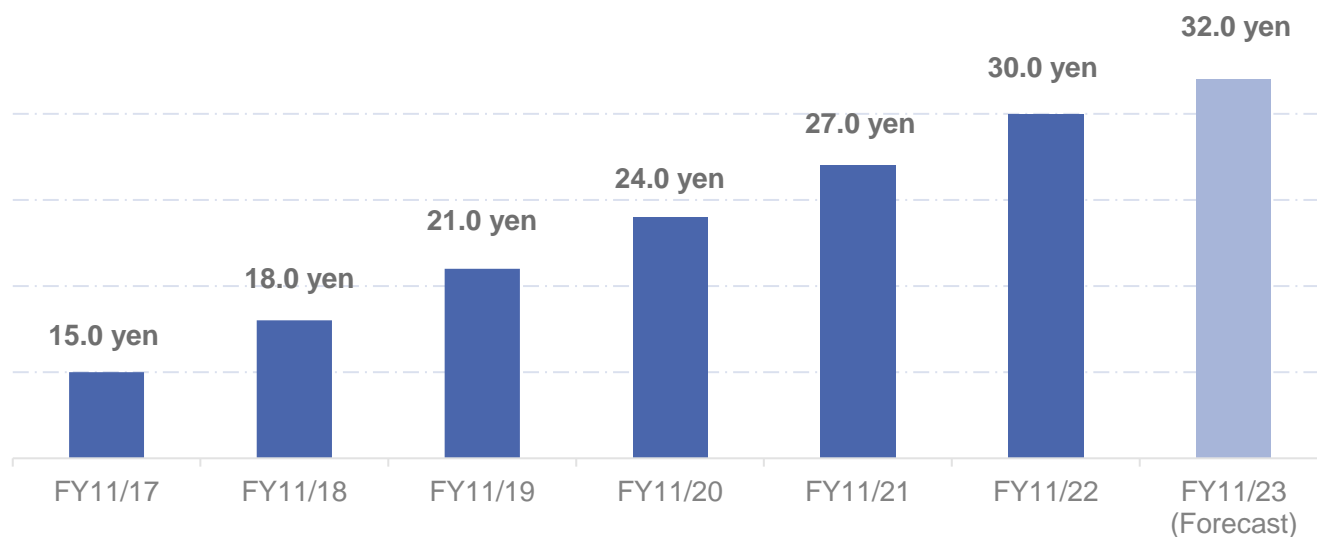
DPS is determined based on consolidated shareholders' equity (average of beginning and end of fiscal year) x 2.0% / number of shares issued at year-end (excluding treasury shares).

We base our dividend payments not on the dividend payout ratio linked to profit for each fiscal year, but on consolidated shareholders' equity on the balance sheet. We plan to pay stable, continuous dividends that are resistant to short-term earnings fluctuations.

Provided net income is in profit and exceeds the dividends amount, consolidated shareholders' equity will gradually rise every fiscal year. We can therefore increase our dividends over the medium to long term in line with the company's growth.

We also consider share buy-backs as a flexible method for providing shareholder returns.

Dividend per share



Note: We plan to pay a dividend of 32.0 yen per share for FY11/23.

Shareholder returns / Shareholder benefit plan

We have adopted the following shareholder benefit plan to show our appreciation for the continuous support of our shareholders and make investment in our stock more attractive so that we can engage a greater number of long-term shareholders.

Shareholder benefit plan (overview)

Each year, we make the shareholder benefit plan, “First Brothers Premium Benefits Club,” available to all shareholders who are registered in our shareholder ledger and meet certain conditions as of November 30.

Details of the First Brothers Premium Benefits Club

The plan extends shareholder benefit points to shareholders commensurate with the quantity and duration of their holdings.

Through the exclusive “First Brothers Premium Benefits Club” website, shareholders can exchange their points for rewards such as local specialties from areas associated with the Group, Amazon gift certificates, food products, electrical appliances, and various opportunities for travel and personal experiences.

Shareholder Benefit Points Table

Shareholders with shares held continuously for at least one year*

Shareholders with shares held for less than one year

No. of shares held	Benefits
At least 500 shares	5,000 points
At least 600 shares	6,000 points
At least 700 shares	7,000 points
to	Additional 1,000 points for each additional 100 shares
At least 5,000 shares	50,000 points

No. of shares held	Benefits
At least 3,000 shares	5,000 points
At least 3,100 shares	6,000 points
At least 3,200 shares	7,000 points
to	Additional 1,000 points for each additional 100 shares
At least 5,000 shares	25,000 points

* Applies to shareholders registered in the company shareholder ledger at least three consecutive times under the same shareholder number each year on May 31 and November 30.

How to apply

Each year, eligible shareholders receive a “Notice of Shareholder Benefits” by mail in early February.

After registering through the website as members of the “First Brothers Premium Benefits Club” in accordance with the procedures described in the “Notice of Shareholder Benefits,” shareholders can apply for their desired products using the website’s product selection screen.

For details of the shareholder benefit plan, please visit the following website.

<https://firstbrothers.premium-yutaiclub.jp/>

About us

Company overview

Company name	First Brothers Co., Ltd.
Established	February 4, 2004
Address	Marunouchi Bldg., 25th Fl., 2-4-1 Marunouchi, Chiyoda-ku, Tokyo
Capital	100,000,000 yen
Stock code	3454 (Tokyo Stock Exchange Prime Market)
Number of staff	235 (as of November 30, 2022; consolidated group basis)
Major subsidiaries	First Brothers Capital Co., Ltd. First Brothers Asset Management Co., Ltd. First Brothers Development Co., Ltd. Higashinihon Fudosan Co., Ltd. From First Hotels Co., Ltd.

Group's major businesses

Ownership and management of real estate for lease

First Brothers carefully selects and purchases real estate for lease expected to generate stable earnings in the medium to long term. Through accumulating these properties, we own and manage a portfolio of real estate for lease. We add value to each of these properties in various ways to draw out their maximum potential. We also develop new properties in cases where doing so would contribute to regional development of the area the properties are located in. The portfolio is reshuffled as necessary to secure unrealized gains from the value-added properties, and these gains are in turn utilized to purchase new real estate for lease. In this way, First Brothers is sustainably expanding its portfolio of real estate for lease.

Real estate asset management

In this business, First Brothers primarily provides asset management services to institutional investors. We target relatively large real estate worth several tens of billions of yen, and manage these assets for the purpose of generating investment income as well as capital gains. We also provide asset management services on contract for real estate investment activities undertaken independently by investors for the duration of the investment period.

Renewable energy

Leveraging the Group's expertise, First Brothers is engaged in the development and operation of various renewable energy businesses. We are particularly focused on the development of geothermal energy, which with its stable output, is much anticipated to become the source of baseload power.

Facility operation (hospitality services)

With the aim of providing hospitality services in the medium to long term, First Brothers operates lodging and other facilities.

Private equity investment

First Brothers invests in an array of businesses, including startups and businesses with social causes.

Disclaimer

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- Even in the event of new information or future developments, the Group undertakes no obligation to update or revise any information contained in these materials.
- These materials were not prepared for the purpose of soliciting investment. We ask that investors do not rely solely on these materials and instead use their own judgement and discretion when making investment decisions.

Inquiries

Business Planning Dept., First Brothers Co., Ltd.
+81-3-5219-5370
IR@firstbrothers.com